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CITE FBIS/HONG KONG 17729

TO: FBIS.

ADMIN

SUBJECT: FN PAYROLLS

REF: FBIS 15784

1. THE BUREAU'S INVESTIGATION OF THE LOCAL BANKING SYSTEM FAILED TO REVEAL ANY MAJOR DRAWBACKS TO THE PROPOSED TRANSFER OF TCN AND LN PAYROLLING TO HEADQUARTERS. IN FACT, THE OPPOSITE IS THE CASE. THE STATUS OF HONG KONG AS ONE OF THE WORLD'S MAJOR FINANCIAL CENTERS, THE PRESENCE OF MAJOR U.S. BANKS HERE -- CHASE, BANK OF AMERICA, AND CITIBANK -- AND THE AVAILABILITY OF EXCELLENT WORLDWIDE COMMUNICATIONS FACILITIES WOULD MAKE SUCH A MOVE FAIRLY EASY TO IMPLEMENT REGARDING THE ELECTRONIC TRANSFER OF FUNDS AND THE USE OF A LOCAL BANK TO DISBURSE SALARIES IN ACCORDANCE WITH PAY INFORMATION FORWARDED TO IT.

ALL CONSULATE OFFICIALS WITH WHICH THE LOCAL BANKING SYSTEM WAS DISCUSSED PRAISED THE SYSTEM FOR ITS EFFICIENCY, QUALITY OF SERVICE, AND ABILITY TO CARRY OUT INSTRUCTIONS AND TO MAKE ADJUSTMENTS IN PROCEDURES QUICKLY AND EASILY. ALSO LISTED AMONG THE GOOD QUALITIES OF THE LOCAL BANKS -- PARTICULARLY CHASE, BANK OF AMERICA, AND CITIBANK

WITH ALL HONG KONG DOLLAR-DENOMINATED FUNDS BEING HANDLED ON BEHALF OF THE CONSULATE BY THIS BANK) -- WAS THE EASE OF COMMUNICATIONS WITH AND UNDERSTANDING OF U.S. GOVERNMENT BANKING REQUIREMENTS BY THE TOP OFFICIALS OF THESE THREE U.S.-BASED BANKS.

2. DRAWBACKS IN THE BANKING SYSTEM:

WE WERE ABLE TO DISCOVER ONLY TWO MINOR DRAWBACKS TO THE

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PAGE 2 FBIS/HONG KONG 17729 C O N F I D E N T I A L
PROPOSED TRANSFER.

A. UNLESS ELECTRONICALLY TRANSFERRED FUNDS ARE DEPOSITED IN A U.S. DOLLAR-DENOMINATED SAVINGS ACCOUNT, THEY WILL BE AUTOMATICALLY CONVERTED INTO HONG KONG DOLLARS ON RECEIPT HERE AT THE RATE PREVAILING AT THE TIME OF TRANSFER. WITH THE FLUCTUATIONS (AT TIMES RAPID) IN THE HONG KONG DOLLAR-U.S. DOLLAR EXCHANGE RATE SEEN IN THE PAST YEAR, IT WOULD BE POSSIBLE FOR FUNDS CALCULATED IN U.S. DOLLARS TO MEET PARTICULAR HONG KONG DOLLAR EQUIVALENT FOR THE BUREAU'S PAYROLL TO FALL SHORT OF THE REQUIRED AMOUNT SHOULD THE EXCHANGE RATE CHANGE IN FAVOR OF THE HONG KONG DOLLAR BETWEEN THE TIME THE CALCULATIONS ARE MADE IN HEADQUARTERS AND WHEN THE FUNDS ARE ACTUALLY DEPOSITED AND CHANGED INTO HONG KONG DOLLARS HERE. THIS TYPE OF SITUATION COULD BE EASILY AVOIDED, FOR EXAMPLE, IF THE BUREAU'S LOCAL PAYROLL ACCOUNT IS KEPT AT A LEVEL TO COVER SUCH FOREIGN EXCHANGE FLUCTUATIONS.

B. THE SECOND DRAWBACK IS RELATED SOMEWHAT TO THE FIRST: IN CONVERSATIONS WITH CONSULATE OFFICIALS, ALL STATED THAT THEY FOUND THE BANKERS HERE MORE AGREEABLE TO PROVIDING HIGH-QUALITY SERVICE TO ACCOUNTS THAT DID NOT REGULARLY DROP TO ZERO BALANCES. UNLESS FUNDS IN THE BUREAU'S PAYROLL ACCOUNT ARE KEPT ABOVE THE LEVEL NECESSARY TO MEET THE NEEDS OF ANY PARTICULAR PAY PERIOD, IT IS CONCEIVABLE THAT FUNDS PAID INTO THE ACCOUNT ON A THURSDAY COULD BE DEPLETED TO ZERO BY THE CLOSE OF THE BANKING DAY ON THE FOLLOWING FRIDAY PAY DAY.

3. AS STATED ABOVE, THE HONG KONG BANKING SYSTEM WOULD MAKE THE PROPOSED TRANSFER FAIRLY EASY TO IMPLEMENT HERE (A COPY OF THE 48-PAGE HONG KONG BANKING ORDINANCE IS BEING FOUCHED TO YOU FOR YOUR INFORMATION), AND THE DRAWBACKS GIVEN IN PARAGRAPH TWO APPEAR TO BE MINOR ONES. WE AGREE THAT THE TRANSFER WOULD MAKE THE HANDLING OF PERSONNEL ACTIONS EASIER. QUESTIONS WE HAVE HERE REVOLVE AROUND THE ADMINISTRATION OF THE PROGRAM, FOR EXAMPLE, HANDLING OF LIAISON WITH LOCAL "CENTRAL" BANK ON DISBURSEMENT INSTRUCTIONS, AND THE LIKE; RESPONSIBILITY FOR THE ACTUAL PRINTING OF CHECKS; THE METHOD TO BE USED TO FORWARD PAYROLL INFORMATION TO HEADQUARTERS FOR EACH PAY PERIOD; AND ADDITIONAL RESPONSIBILITIES THIS WOULD PLACE ON BUREAU PERSONNEL.

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